

NOTE 17 Long-term Debt (continued)

TeleBonds

TCNZ Finance Limited, a subsidiary of the Company, offers bonds ("TeleBonds") to institutional and retail investors. These are issued as income, compounding, or zero coupon bonds and are offered on a continuous basis for a term of from one to fifteen years as stipulated by the investor. The interest or discount rate on offer, as the case may be, is generally adjusted relative to Government debt securities and, upon issue of the TeleBonds, is fixed for the period of the investment.

TeleBonds have interest rates ranging from 5.9% to 10.3% and maturity dates between October 2000 and April 2015.

Eurobonds

Eurobonds are issued by TCNZ Finance Limited and have the following interest rates and maturity dates:

	Telecom Group		
	31 March	30 June	
	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$
7.5% due 19 September 1999	100	100	-
9.5% due 3 April 2000	75	75	-
6.5% due 29 September 2000	69	69	69
6.5% due 11 October 2001	113	113	113
9.25% due 1 July 2002	66	66	66
7.5% due 14 July 2003	82	82	82
6.75% due 11 October 2005	150	150	150
	655	655	480

Eurobond issues with maturities of 11 October 2001 and 2005 are denominated in US dollars. Cross currency and interest rate swaps have been entered into to manage the currency and interest rate risk exposure. The effective NZ dollar interest rates for these issues are 8.53% and 8.44% respectively. All other issues are denominated in NZ dollars.

Euro Medium Term Notes

TCNZ Finance Limited launched a US\$1 billion Euro Medium Term Notes ("EMTN") programme in March 2000. Both public debt transactions and private placements can be issued under the programme.

	Telecom Group		
	31 March	30 June	
	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$
5.5% due 19 April 2005	-	-	769
1.85% due 5 June 2007	-	-	412
Various private placements	-	-	469
	-	-	1,650

The EMTN with maturities of 19 April 2005 and 5 June 2007 are denominated in Euro and Yen respectively. The private placements are denominated in Yen and have interest rates ranging from 0.5% to 2.0% with maturity dates ranging from 14 March 2002 to 8 June 2009. Cross currency and interest rate swaps have been entered into to manage the currency and interest rate risk exposures. The effective NZ dollar interest rates for the EMTN range from 8.28% to 8.93%.

Swiss Franc Issue

A Swiss franc bond has been issued by TCNZ Finance Limited with the following interest rate and maturity date:

	Telecom Group		
	31 March	30 June	
	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$
3.25% due 27 May 2003	150	150	150

Cross currency and interest rate swaps have been entered into to manage the currency and interest rate risk exposure. The effective NZ dollar interest rate for this issue is 8.07%.

NOTE 17 Long-term Debt (continued)

Finance Lease Obligations

	Telecom Group		
	31 March 1999	30 June 1999	2000
	(Dollars in millions) NZ\$	NZ\$	NZ\$
Finance lease obligations are denominated in the following currencies:			
NZ dollars	63	60	47
Japanese yen	27	27	34
	90	87	81

Finance lease obligations have interest rates ranging from 1.64% to 9.7%.

Included in long-term investments (see Note 11) are Japanese yen deposits amounting to \$34 million (30 June 1999: \$26 million, 31 March 1999: \$26 million) which effectively hedge a substantial proportion of the finance lease obligations denominated in Japanese yen as noted above. The deposits have the same maturities as the finance lease obligations they are hedging, and interest rates that range from 3.68% to 4.29%.

Bank Facility

AAPT has access to an A\$300 million committed bank facility. At 30 June 2000 it had drawn down A\$240 million under this facility. Interest rate swaps amounting to A\$30 million have been entered into to partially hedge the interest rate exposure on this facility. The effective interest rate of the bank facility (inclusive of hedging) is 6.8%. The maturity date of the bank facility is November 2001.

Other Loans

Other loans have interest rates ranging from 1.0% to 5.72% and maturity dates between January 2002 and December 2006.

NOTE 18 CAPITAL FUNDS

Kiwi Share

A special rights convertible preference share (the "Kiwi Share") was created on 11 September 1990 and is registered in the name of, and may only be held by, the Minister of Finance on behalf of the Crown. The consent of the holder of the Kiwi Share is required for the amendment, removal or alteration of the effect of certain provisions of the Company's Constitution which was adopted upon re-registration on 27 September 1996 under the Companies Act 1993.

The Company's Constitution also contains provisions that require Telecom to observe certain principles relating to the provision of telephone services and their prices, and that require the consent of the holder of the Kiwi Share and the Board of Telecom for a person to become the holder of an interest in 10% or more of the voting shares in Telecom.

The holder of the Kiwi Share is not entitled to vote at any meetings of the Company's shareholders nor participate in the capital or profits of the Company, except for repayment of \$1 of capital upon a winding up. The Kiwi Share may be converted to an ordinary share at any time by the holder thereof, at which time all rights and powers attached to the Kiwi Share will cease to have any application.

Contributed Capital

Movements in the Company's issued ordinary shares were as follows:

	Year ended 31 March 1999	Three months ended 30 June 1999	Year ended 30 June 2000
	Number	Number	Number
At the beginning of the period	1,751,976,069	1,752,801,986	1,752,801,986
Issue of new shares upon exercise of options	825,917	-	668,316
Shares issued under the Dividend Reinvestment Plan	-	-	1,943,141
At the end of the period	1,752,801,986	1,752,801,986	1,755,413,443

Each of the ordinary shares confers on the holder the right to vote at any general meeting of the Company except that the Company's Constitution provides for certain restrictions on voting, including where a holder holds more than 10% of the ordinary shares in breach of shareholding limitations.

Share Repurchase

In February 1997, Telecom began a flexible programme of share repurchases subject to the detailed procedures and disclosure requirements of the Companies Act 1993 and the requirements of the New Zealand Stock Exchange. The repurchase programme was completed on 19 December 1997. A total of 138,093,860 shares were repurchased under the programme at a total cost of \$1,001 million.

NOTE 18 Capital Funds (continued)

Capital Notes

TCNZ Finance Limited ("the Issuer"), Telecom's main financing subsidiary, has issued long-term fixed interest unsecured subordinated capital notes ("TeleNotes").

An initial issue was completed in May 1997 in the New Zealand market for an aggregate principal amount of face value \$275 million. The TeleNotes were issued for an initial term of approximately seven years and with a fixed coupon of 8.5%. A second issue to the institutional market was made in August 1997 for an aggregate principal amount of face value \$150 million for an initial term of approximately nine years and with a fixed coupon of 7.5%. At the end of the initial term, investors are offered the option of continuing to hold the TeleNotes at a new yield and for a term set by the Issuer. In the event that the investors do not accept the new terms of the TeleNotes they may elect to have their notes redeemed.

The Issuer can, at its sole discretion, redeem the TeleNotes including any unpaid interest for cash or redeem the TeleNotes including any unpaid interest by subscribing for and procuring the issue of ordinary shares in the Company to the noteholders at a price equivalent to 90% of the average closing price of the Company's shares in the 10 business days preceding the election date.

In February 1998, Telecom New Zealand Finance Limited, a Telecom financing subsidiary, issued to certain qualified institutional buyers in the United States of America, under an Offering Memorandum pursuant to US SEC Rule 144A, an aggregate principal amount of face value US\$150 million 6.25% Restricted Capital Securities and US\$150 million 6.5% Restricted Capital Securities for an initial term of five and ten years respectively. Telecom has entered into currency swaps to remove the exposure to exchange rate fluctuations that would otherwise result from the issue of US Capital Securities. The effective cost of the US Capital Securities reflects the results of these currency swaps and related New Zealand interest rate swaps. The Restricted Capital Securities rank pari passu with the TeleNotes issued in New Zealand and are similar in all material respects.

The proceeds of the capital notes issues were used to effect the share repurchase programme.

Foreign Currency Translation Reserve

Movements in Telecom's foreign currency translation reserve are reconciled below:

	Telecom Group			
	Year ended 31 March 1998	Year ended 31 March 1999	Three months ended 30 June 1999	Year ended 30 June 2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$
Balance at the beginning of the period	(1)	-	-	1
Net exchange difference on translation of independent overseas subsidiaries	1	-	11	53
Net exchange difference on translation of overseas associate company	-	-	-	2
Hedge of net investment in an independent overseas subsidiary	-	-	(10)	(7)
	1	-	1	48
Balance at the end of the period	-	-	1	49

Telecom Share Options

Telecom (excluding AAPT) operates an executive share option scheme whereby certain key executives are granted a number of options to purchase ordinary shares in the Company. Each option will convert to one ordinary share on exercise (provision is made for adjustment in certain circumstances). A participant may exercise his or her options (subject to employment conditions) any time during a prescribed period commencing at least one year from the date on which the options are conferred. New ordinary shares will be issued in accordance with the Constitution upon the exercise of options. The price payable on exercise will be equivalent to the average daily closing price of Telecom shares reported on the New Zealand Stock Exchange for the 10 business days on which shares are traded immediately preceding the date on which options are granted (subject to adjustment if the shares traded "cum dividend"). The options granted are determined by a committee of the Board of Directors pursuant to the executive share option scheme.

NOTE 18 Capital Funds (continued)

Information regarding options granted under the executive share option scheme is as follows:

	Option price* NZ\$	Number of options
As at 31 March 1997	5.83	1,467,718
Granted	7.13	1,473,447
Exercised	6.28	(264,992)
Lapsed due to resignation	6.86	(53,685)
As at 31 March 1998	6.49	2,622,488
Granted	8.49	3,022,401
Exercised	6.65	(825,917)
Lapsed due to resignation	8.37	(186,087)
Forfeited	8.54	(999,284)
As at 31 March 1999	7.46	3,633,601
Granted	8.12	3,954,194
Lapsed due to resignation	8.54	(32,239)
As at 30 June 1999	7.80	7,555,556
Granted	8.39	487,894
Exercised	6.16	(668,316)
Lapsed due to resignation	8.15	(641,059)
As at 30 June 2000	7.97	6,734,075

Period Granted	Options outstanding				Options currently exercisable	
	Options outstanding	Price range NZ\$	Price * NZ\$	Remaining life* (years)	Options exercisable	Price * NZ\$
1 April 1995 – 31 March 1996	372,415	5.71	5.71	1.0	372,415	5.71
1 April 1996 – 31 March 1997	135,951	6.01 – 6.98	6.67	2.0	135,951	6.67
1 April 1997 – 31 March 1998	764,040	6.85 – 8.42	7.38	2.9	764,040	7.38
1 April 1998 – 31 March 1999	1,610,000	7.85 – 9.17	8.46	3.6	1,610,000	8.46
1 April 1999 – 30 June 1999	3,363,775	8.12	8.12	4.4	2,179,791	8.12
1 July 1999 – 30 June 2000	487,894	7.87 – 8.80	8.39	5.3	-	-
	<u>6,734,075</u>				<u>5,062,197</u>	

* Weighted average

AAPT Share Options

AAPT Limited operates an executive and employee share option plan whereby AAPT executives and employees are granted a number of options to purchase AAPT ordinary shares. Each option is convertible to one ordinary AAPT Limited fully paid share. Participants may exercise their options as follows:

- Up to 50% of the options, between two and five years of the grant date;
- Up to a further 25% of the options, between three and five years of the grant date; and
- Up to the remaining 25% of the options, between four and five years of the grant date.

New ordinary shares will be issued in accordance with AAPT's Constitution upon the exercise of the options. The exercise price is determined by the weighted average of the price at which AAPT's shares were traded on the Australian Stock Exchange during the week before the options were granted. The options granted are determined by AAPT's Board pursuant to the executive and employee share option scheme.

Information regarding options granted under the AAPT executive and employee share option plan is as follows:

	Option price* A\$	Number of options
As at 27 November 1999	2.15	11,250,000
Granted	5.42	5,524,000
Exercised	2.77	(5,422,475)
Lapsed due to resignation	4.86	(198,400)
As at 30 June 2000	3.62	11,153,125

NOTE 18 Capital Funds (continued)

Period Granted	Options outstanding				Options currently exercisable	
	Options outstanding	Price range A\$	Price * A\$	Remaining life* (years)	Options exercisable	Price * A\$
1 July 1997 – 30 June 1998	3,061,500	0.30 – 3.21	0.89	2.2	3,061,500	0.89
1 July 1998 – 30 June 1999	2,342,625	2.68 – 4.59	3.59	3.7	2,342,625	3.59
1 July 1999 – 27 November 1999	360,000	4.75	4.75	4.1	360,000	4.75
28 November 1999 – 30 June 2000	5,389,000	4.83 – 6.45	5.42	4.8	-	-
	<u>11,153,125</u>				<u>5,764,125</u>	

* Weighted average

Dividends

Dividends declared and provided by the Company are as follows:

	Year ended 31 March		Three months ended 30 June	Year ended
	1998	1999	1999	2000
(Dollars in millions, except per share amounts)	NZ\$	NZ\$	NZ\$	NZ\$
First quarter dividend paid	186	201	-	201
Supplementary dividend	26	26	-	25
Second quarter dividend paid	185	201	-	201
Supplementary dividend	25	26	-	25
Third quarter dividend paid	184	202	-	202
Supplementary dividend	25	26	-	25
Third quarter special dividend provided	61	-	-	-
Supplementary dividend	8	-	-	-
Fourth quarter dividend provided	140	202	-	202
Supplementary dividend	19	26	-	25
Transition period dividend provided	-	-	202	-
Supplementary dividend	-	-	25	-
Total dividends	<u>859</u>	<u>910</u>	<u>227</u>	<u>906</u>
Dividends per share (excluding supplementary dividends)	<u>43.0 cents</u>	<u>46.0 cents</u>	<u>11.5 cents</u>	<u>46.0 cents</u>

Total dividends for the year ended 30 June 2000 represented four quarterly dividends of 11.5 cents per share. In addition, and in accordance with the Income Tax Act 1994, supplementary dividends totalling \$75 million were paid with the first three quarterly dividends to shareholders who are not resident in New Zealand, for which Telecom received an equivalent tax credit from the Inland Revenue Department. Supplementary dividends of \$25 million have been provided for which will be payable with the fourth quarter dividend.

Shares Issued in Lieu of Dividends

Telecom established a Dividend Reinvestment Plan effective from the third quarter of the year ended 30 June 2000. Under the plan shareholders can elect to receive dividends in cash or additional shares. In respect of the 31 March 2000 quarterly dividend 1,943,141 shares, with a total value of \$15 million, were issued in lieu of a cash dividend.

NOTE 19 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Interest Rate and Currency Risk

Telecom employs the use of derivative financial instruments for the purpose of reducing its exposure to fluctuations in interest rates and foreign exchange rates. Telecom effectively monitors the use of derivative financial instruments through the use of well-defined market and credit risk limits and timely reports to senior management.

The majority of Telecom's long-term debt has been, and is currently, subject to fixed interest rates. Telecom uses derivative products such as interest rate swaps, forward rate agreements and interest rate options to reduce the impact of changes in interest rates on its floating rate debt.

The purpose of Telecom's foreign currency hedging activities is to protect it from the risk that the eventual New Zealand dollar net cash flows, resulting from purchases from foreign suppliers and foreign currency borrowings and expenditure, will be adversely affected by changes in exchange rates. As at 30 June 2000, Telecom's net unhedged foreign exchange position relating to the aforementioned activities was not significant.

Notes to the Financial Statements

NOTE 19 Financial Instruments and Risk Management (continued)

The notional principal or contract amounts outstanding are as follows:

	Telecom Group			
	31 March	30 June		Maturities
	1999	1999	2000	
(Dollars in millions)	NZ\$	NZ\$	NZ\$	
Cross currency interest rate swaps	925	925	2,575	2001-2009
Interest rate swaps	719	719	2,397	2001-2010
Interest rate options	-	300	450	2000-2001
Forward exchange contracts				
(hedging firm purchase commitments and foreign currency investments)	712	895	757	2000-2005
Forward exchange contracts				
(hedging short-term debt)	718	605	340	2000
Forward rate agreements	30	-	-	-
Currency options				
Purchased puts	-	-	21	2000-2001
Sold calls	-	-	20	2000-2001

The notional amounts of the derivative financial instruments, with the exception of forward exchange contracts and cross currency interest rate swaps, do not necessarily represent amounts exchanged by the parties, and therefore, are not a direct measure of the exposure of Telecom through its use of derivative financial instruments. The amounts exchanged are calculated on the basis of the notional principal amounts and the other terms of the instruments, which relate to interest rates and exchange rates.

Parent Company

The Parent Company had no derivative contracts outstanding at 30 June 2000 and 1999, and 31 March 1999.

Concentration of Credit Risk

In the normal course of its business, Telecom incurs credit risk from trade receivables and transactions with financial institutions. Telecom has a credit policy, which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by the Board of Directors and are monitored on a regular basis.

Telecom does not require collateral or other security to support financial instruments with credit risk. While Telecom may be subject to credit losses in the event of non-performance by its counterparties, it does not expect such losses to occur.

Financial instruments which potentially subject Telecom to credit risk consist principally of cash, short-term investments, advances to associate companies, trade receivables and various off-balance sheet instruments. Telecom places its cash, short-term investments and off-balance sheet hedging instruments with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution. Telecom has no significant concentrations of credit risk in respect of any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers included in Telecom's customer base.

Fair Values of Financial Instruments

The estimated fair values of Telecom's financial instruments, which differ from the carrying values, are as follows:

	Telecom Group					
	31 March		30 June		2000	
	1999		1999		2000	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Applicable financial instruments on the balance sheet:						
Long-term investments - term deposits	26	28	26	28	34	35
Long-term investments - advances to associate companies	-	-	104	104	158	151
Long-term investments - shares in listed companies	-	-	386	337	166	158
Long-term debt (see Note 17)	(1,289)	(1,520)	(1,250)	(1,389)	(3,049)	(3,267)
Capital notes	(942)	(1,075)	(942)	(1,029)	(943)	(1,085)
Financial instruments with off-balance sheet risk:						
Interest rate swaps	(6)	(43)	(13)	(24)	(15)	(62)
Cross currency interest rate swaps	6	156	9	146	7	277
Interest rate options	7	-	2	1	1	2
Foreign currency forward exchange contracts						
(hedging firm purchase commitments and foreign currency investments)	1	29	1	15	1	59
Foreign currency options	-	-	-	-	-	1

Telecom anticipates that long-term debt and capital notes will be held to maturity and, accordingly, settlement at the reported fair value of these financial instruments is unlikely.

NOTE 19 Financial Instruments and Risk Management (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash, Short-term Investments, Bank Overdraft, Short-term Debt, Receivables and Prepayments, Accounts Payable and Accruals

The carrying amounts of these balances are approximately equivalent to their fair value and therefore they are excluded from the table shown above.

Long-term Investments

The fair value of term deposits is estimated on the basis of current market interest rates available to Telecom for investments of similar terms and maturities.

The fair value of advances to associate companies is based on current market interest rates for debt of similar maturities.

The fair value of shares in listed companies is based on quoted market prices for these securities.

It was not practicable to estimate fair values of the remaining long-term investments as there are no quoted market prices for these or similar investments.

Long-term Debt

The fair values of TeleBonds, Eurobonds and the Swiss franc issue are estimated on the basis of the quoted market prices of Government debt securities of similar maturities. The fair value of other long-term debt is based on current market interest rates available to Telecom for debt of similar maturities.

Capital Notes

The fair values of Capital Notes are estimated on the basis of the quoted market prices of Government debt securities of similar maturities.

Cross Currency Interest Rate Swaps, Interest Rate Swaps, Forward Exchange Contracts, Foreign Currency Options, Forward Rate Agreements and Interest Rate Options

The fair values are estimated on the basis of the quoted market prices of those instruments.

The carrying value of the cross currency interest rate swaps and interest rate swaps represents the accrued interest on these instruments.

Repricing Analysis

The following table indicates the effective interest rates, the earliest period in which recognised financial instruments reprice and the extent to which these factors have been modified by off-balance sheet financial instruments. This information provides a basis for the evaluation of the interest rate risk to which Telecom is exposed in the future.

	Weighted effective interest rate	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Greater than 5 years	TOTAL
(Dollars in millions)		NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Financial assets:								
Cash balances	5.14%	81	-	-	-	-	-	81
Investments	6.87%	739	38	-	-	-	-	777
Financial liabilities:								
Debt	7.93%	(1,771)	(599)	(269)	(137)	(769)	(778)	(4,323)
Capital notes	8.60%	-	-	(263)	(273)	-	(407)	(943)
Off-balance sheet instruments:								
Interest rate swaps		2,360	(39)	(406)	-	(490)	(1,425)	-
Cross currency interest rate swaps		(2,293)	357	457	-	770	709	-
Interest rate options		350	(350)	-	-	-	-	-
30 June 2000 repricing profile		(534)	(593)	(481)	(410)	(489)	(1,901)	(4,408)
30 June 1999 repricing profile		(518)	(273)	(387)	(486)	(362)	(710)	(2,736)
31 March 1999 repricing profile		(416)	(279)	(199)	(356)	(512)	(690)	(2,452)

NOTE 20 COMMITMENTS

Operating Leases

Minimum rental commitments for all non-cancellable operating leases (excluding amounts provided for in respect of restructuring) are:

	Telecom Group		
	31 March	30 June	
	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$
Payable within 1 year	45	50	56
Payable within 1-2 years	41	45	48
Payable within 2-3 years	35	39	41
Payable within 3-4 years	32	32	28
Payable within 4-5 years	24	23	19
Payable thereafter	116	133	83
	293	322	275

Finance Leases

Lease commitments in respect of capitalised finance leases are:

	Telecom Group		
	31 March	30 June	
	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$
Payable within 1 year	19	19	63
Payable within 1-2 years	63	59	23
Payable within 2-3 years	17	17	-
Payable within 3-4 years	-	-	-
Payable within 4-5 years	-	-	-
Total minimum lease payments	99	95	86
Future finance charges on finance leases	(9)	(8)	(5)
Present value of net future minimum lease payments (see Note 17)	90	87	81

Capital Commitments

At 30 June 2000, capital expenditure amounting to \$754 million (30 June 1999: \$65 million, 31 March 1999: \$55 million) had been committed under contractual arrangements, with substantially all payments due within four years. The capital expenditure commitments principally relate to telecommunications network assets and at 30 June 2000 included Telecom and AAPT's commitments relating to Code Division Multiple Access ("CDMA") network build costs.

In addition Telecom has signed an agreement with other international telecommunications organisations to build and operate a Trans-Pacific submarine optical fibre cable, called the Southern Cross Cable Network ("Southern Cross"), linking Australia and New Zealand with Hawaii, Fiji and the West Coast of the United States. In March 1998, Telecom contractually committed to purchase capacity on Southern Cross of approximately US\$140 million. The first payment of approximately US\$70 million is due on the first ready-for-service date ("RFS"), now expected to be in November 2000. The second payment of approximately US\$57 million is due on the first anniversary of RFS with the balance payable over the following two years. In November 1999, Telecom committed to purchase further capacity at a cost of US\$69 million. Payments of US\$12 million, US\$23 million, US\$23 million and US\$11 million are due on 31 January 2002, 2003, 2004 and 2005 respectively. In addition AAPT has committed to purchase capacity on Southern Cross at a cost of approximately US\$40 million payable over the next three years.

To date Southern Cross has signed capacity purchase commitments with customers totalling US\$1.1 billion. Southern Cross cable construction costs are being funded through a US\$640 million external credit facility and interim funding provided by the shareholders. Telecom has committed to provide up to US\$150 million as part of this interim funding and as at 30 June 2000 had advanced US\$120 million (excluding accrued interest) under this arrangement. Southern Cross plans to refinance the external credit facility, and repay all outstanding interim funding from shareholders, on or before RFS. Based on current capacity commitments and expected revenue forecasts, it is expected that Southern Cross will repay its borrowings in the first few years after project completion.

In addition the Telecom Group has committed to provide additional funding of A\$90 million to another associate company, over the next 18 months.

NOTE 21 CONTINGENT LIABILITIES

Lawsuits and Other Claims

In proceedings commenced in November 1996, Clear Communications Limited ("Clear") alleges breaches of the Commerce Act in relation to Telecom's bundling practices. Unspecified damages are sought.

In April 1997, Telecom issued proceedings against Clear for withholding certain payments for services supplied under Clear's 1996 interconnection agreement with Telecom. Telecom seeks a declaration that the outstanding amounts are payable and an injunction requiring Clear to pay for services provided under the interconnection agreement. Clear's latest amended defence and counterclaim allege that the provisions of the 1991 and 1996 interconnection agreements requiring payments of the sums invoiced by Telecom are void or unenforceable and that by charging these sums and seeking to enforce the agreements Telecom has an anti-competitive purpose and effect in breach of the Commerce Act.

In May 2000, Clear abandoned most of its causes of action in these two proceedings. A three month liability trial dealing with remaining allegations in both proceedings is due to commence on 26 March 2001. Specified allegations previously the subject of separate proceedings will be referred to arbitration after trial.

In proceedings commenced by Telstra NZ Limited ("Telstra NZ") in May 1999, it was alleged that Telecom's cessation of certain carrier rebilling arrangements with Telstra NZ breached the Commerce Act. Telstra NZ sought injunctive relief together with unspecified damages. Telstra NZ's application for interlocutory injunction was dismissed in July 1999, and the proceedings were settled in July 2000.

In June 1999 a claim was filed against Telecom in the Employment Court by representative and individual plaintiffs. The plaintiffs allege breach of various express and implied terms of their employment contracts. The claim is not fully quantified.

In March 1997 Telstra Corporation commenced proceedings against AAPT in the Commercial Division of the Supreme Court of New South Wales, Australia. These proceedings were later transferred to the Federal Court of Australia in Sydney. Telstra Corporation claims approximately A\$127 million plus interest and costs for unpaid charges for telecommunications services and restitution for the benefits received in relation to those telecommunications services. AAPT has cross-claimed asserting claims including breach of contract, negligence, misleading and deceptive conduct, misuse of confidential information, unconscionable conduct and abuse of market power under Part IV of the Australian Trade Practices Act. Trial of these proceedings has commenced and the hearing is due to resume in October 2000.

In April 2000, CallPlus Limited ("CallPlus") and two other companies issued proceedings against Telecom alleging breach of contract and the Commerce Act in relation to Telecom's 0867 service. Clear also commenced proceedings against Telecom in April 2000, alleging breach of contract in relation to the number portability agreement between Telecom and Clear and breach of the Commerce Act in relation to Telecom's 0867 service. CallPlus and Clear each seek injunctive relief and an inquiry into damages.

On 31 July 2000, the Commerce Commission issued proceedings against Telecom claiming that the introduction of 0867 constituted a use by Telecom of its dominant position for proscribed purposes. The Commerce Commission seeks a declaration that this contravened s36 of the Commerce Act, pecuniary penalty, and costs.

Various other lawsuits, claims and investigations have been brought or are pending against Telecom.

The Directors of Telecom cannot reasonably estimate the adverse effect (if any) on Telecom if any of the foregoing claims are ultimately resolved against Telecom's interests, and there can be no assurance that such litigation will not have a material adverse effect on Telecom's business, financial condition or results of operations.

Land Claims

As previously stated in Note 13, interests in land included in fixed assets purchased from the Government may be subject to claims to the Waitangi Tribunal or deemed to be Wahi Tapu and, in either case, may be resumed by the Government. Certain claims have been brought or are pending against the Government under the Treaty of Waitangi Act 1975. Some of these claims may affect land transferred to the Company by the Government and/or by the Company to its subsidiary companies. In the event that land is resumed by the Government, there is provision for compensation to Telecom.

Financial Instruments

There are contingent liabilities in respect of outstanding contracts for the sale and purchase of foreign currencies, cross currency interest rate swaps, interest rate swaps, interest rate options and foreign currency options. No significant losses are anticipated in respect of these matters.

AAPT had issued bank guarantees totalling A\$91 million as at 30 June 2000.

Parent Company

The Parent Company has guaranteed, along with guaranteeing subsidiary companies, indebtedness of TCNZ Finance Limited amounting to \$3,272 million (30 June 1999: \$1,546 million, 31 March 1999: \$1,580 million) under a guarantee dated 27 May 1997 and trust deeds dated 25 October 1988, 3 April 1992 and 17 March 2000 and subsequent supplemental trust deeds, together with interest thereon. The Parent Company has issued further guarantees in relation to commercial paper and other treasury activities of TCNZ Finance Limited. The Parent Company has also provided intercompany guarantees to Telecom New Zealand Limited.

NOTE 22 RELATED PARTY TRANSACTIONS

Telecom Group

Transactions with Principal Shareholders

During the share repurchase programme, which was completed in December 1997, 31,979,330 shares were repurchased from each of Ameritech and Bell Atlantic at a cost of \$233 million each. At the time of the share repurchase, Ameritech and Bell Atlantic were principal shareholders in Telecom.

Interest of Directors in Certain Transactions

Certain Directors have relevant interests in a number of companies with which Telecom has transactions in the normal course of business.

NOTE 22 Related Party Transactions (continued)**Advances to Associate Companies**

As at 30 June 2000 Telecom had made a long-term shareholders advance of US\$58 million (excluding accrued interest) to Southern Cross Cables Holdings Limited at an interest rate of Libor + 0.75% (30 June 1999: US\$55 million) and a short-term advance for interim funding purposes of US\$120 million (excluding accrued interest) at an interest rate of Libor + 1.0%. AAPT had made an interest free advance of A\$25 million to AOL Australia Online Services Pty Limited at 30 June 2000.

Parent Company

The Parent Company's transactions with subsidiary companies are set out in Notes 2 and 5.

Amounts due to subsidiary companies are for no fixed term and are at a weighted average interest rate of 6.35% at 30 June 2000 (30 June 1999: 4.68%).

Included within investments in subsidiary companies (see Note 11) at 30 June 2000 are net term loans of \$1,711 million (30 June 1999: \$567 million) advanced to subsidiary companies. These term loans have interest rates ranging between 0% and 9.8% (30 June 1999: 0% and 9.8%).

NOTE 23 SUBSIDIARY AND ASSOCIATE COMPANIES

At 30 June 2000, the significant operating companies of the Telecom Group and their activities were as follows:

	Country of incorporation	Interest held	Principal activity
Subsidiary Companies			
Telecom New Zealand Limited	New Zealand	100%	<i>Provides local, national and international and value-added telephone services, cellular and other mobile services, data and Internet services.</i>
Telecom Directories Limited	New Zealand	100%	<i>Publishes telephone directories.</i>
Telecom Purchasing Limited	New Zealand	100%	<i>A group purchasing and procurement company.</i>
Telecom Cook Islands Limited	Cook Islands	60%	<i>Provides telecommunications services in the Cook Islands.</i>
TCNZ (UK) Investments Limited	United Kingdom	100%	<i>A group finance company.</i>
TCNZ (United Kingdom) Securities Limited	United Kingdom	100%	<i>A group finance company.</i>
TCNZ Finance Limited	New Zealand	100%	<i>A group finance company.</i>
Telecom Investments Limited	New Zealand	100%	<i>A group finance company.</i>
Telecom New Zealand Finance Limited	New Zealand	100%	<i>A group finance company.</i>
TCNZ Financial Services Limited	New Zealand	100%	<i>A group finance company.</i>
Telecom Enterprises Limited	New Zealand	100%	<i>A holding company.</i>
Telecom Wellington Investments Limited	New Zealand	100%	<i>A holding company.</i>
Telecom Pacific Limited	New Zealand	100%	<i>A holding company.</i>
TCNZ Australia Investments Pty Limited	Australia	100%	<i>A holding company.</i>
Telecom Southern Cross Limited	New Zealand	100%	<i>A holding company.</i>
TCNZ (Bermuda) Limited	Bermuda	100%	<i>A holding company.</i>
Telecom Southern Cross Finance Limited	Bermuda	100%	<i>A group finance company.</i>
Telecom New Zealand Australia Pty Limited	Australia	100%	<i>Provides international wholesale telecommunications services.</i>
Telecom New Zealand Japan Kabushiki Kaisha	Japan	100%	<i>Provides international wholesale telecommunications services.</i>
Telecom New Zealand UK Limited	United Kingdom	100%	<i>Provides international wholesale telecommunications services.</i>
Telecom New Zealand (UK) Licences Limited	United Kingdom	100%	<i>Holds United Kingdom telecommunications licences.</i>
Telecom New Zealand USA Limited	United States	100%	<i>Provides international wholesale telecommunications services.</i>
AAPT Limited	Australia	79.9%	<i>Provides value-added telecommunications services.</i>
Cellular One Communications Limited	Australia	100%*	<i>Provides mobile telecommunications services.</i>
connect.com.au Pty Limited	Australia	100%*	<i>Internet service provider.</i>
Commerce Solutions Limited	Australia	100%*	<i>Provides e-commerce solutions.</i>
AAPT CDMA Pty Limited	Australia	100%*	<i>Provides CDMA wireless services.</i>
Associate Companies			
Pacific Carriage Holdings Limited	Bermuda	50%	<i>A holding company.</i>
Southern Cross Cables Holdings Limited	Bermuda	50%	<i>A holding company.</i>
AOL Australia Online Services Pty Limited	Australia	50%*	<i>Internet service provider.</i>

Other than Telecom New Zealand Australia Pty Limited, which has a balance date of 31 March, the financial year-end of all significant operating subsidiaries and associates is 30 June.

* Represents AAPT's shareholding in the company.

NOTE 24 SEGMENTAL REPORTING

Geographic Segments

As at and for the year ended 30 June 2000

	Telecom Group				
	New Zealand operations	Australian operations	Other operations	Eliminations	Consolidated
	(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$
Operating revenue					
External customers	3,515	741	75	-	4,331
Internal customers	22	15	-	(37)	-
Abnormal revenue	-	15	-	-	15
Total revenue	3,537	771	75	(37)	4,346
Segment net earnings attributable to shareholders	757	31	18	(23)	783
Segment fixed assets	3,724	481	45	-	4,250
Segment total assets	5,076	1,083	648	1,174	7,981

Intersegment sales are priced on an arms length basis.

During the three months to 30 June 1999 and in the years to 31 March 1999 and 1998, more than 90% of the Group's total operating revenues, operating earnings and identifiable assets were generated by operations in New Zealand. The purchase of a majority interest in Australian subsidiary AAPT on 27 November 1999 creates the need for separate geographical disclosures for the year to 30 June 2000.

Industry Segments

Telecom essentially operates within one industry segment as a unitary business, providing an integrated range of telecommunications products and services.

NOTE 25 RECONCILIATION OF NET EARNINGS ATTRIBUTABLE TO SHAREHOLDERS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Telecom Group				Parent Company		
	Year ended 31 March		Three months ended	Year ended	Year ended	Three months ended	Year ended
	1998	1999	30 June 1999	30 June 2000	31 March 1999	30 June 1999	30 June 2000
	(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Net earnings attributable to shareholders	820	822	202	783	699	174	722
Adjustments to reconcile net earnings to net cash flows from operating activities:							
Depreciation	564	553	136	583	-	-	-
Bad and doubtful accounts	34	27	5	43	-	-	-
Deferred income tax	(2)	23	(1)	24	-	-	-
Share of losses of associate companies	-	-	7	6	-	-	-
Minority interests in profits of subsidiaries	-	2	-	8	-	-	-
Capital note distribution costs	26	55	13	54	-	-	-
Goodwill amortised	4	7	2	43	-	-	-
Sale of AAPT Sat-Tel Pty Limited	-	-	-	(15)	-	-	-
Discontinued operations	(30)	-	-	-	-	-	-
Other	1	14	(1)	(2)	-	-	-
Changes in assets and liabilities net of effects of non-cash and investing and financing activities:							
(Increase)/decrease in accounts receivable and related items	(108)	23	(15)	(127)	20	-	(2)
Decrease/(increase) in inventories	20	(1)	(9)	6	-	-	-
Increase/(decrease) in current taxation	106	83	153	61	(53)	(15)	(49)
(Decrease)/increase in provisions	(53)	(59)	6	(57)	-	-	-
Increase/(decrease) in accounts payable and related items	155	25	(5)	135	-	-	(12)
Net cash flows from operating activities	1,537	1,574	493	1,545	666	159	659

NOTE 26 IMPUTATION CREDIT ACCOUNT

Dividends paid by New Zealand resident companies may include imputation credits representing the taxation already paid by the Company on the profits distributed. New Zealand resident shareholders may claim a tax credit equal to the value of the imputation credit attached to dividends. Overseas shareholders in general are not entitled to claim the benefit of any imputation credit. Overseas shareholders may benefit from supplementary dividends. The movements in the imputation credit accounts are detailed below:

	Telecom Group			Parent Company		
	31 March		30 June	31 March		30 June
	1999	1999	2000	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Balance (credit) at the beginning of the period	(116)	(126)	(1)	(17)	(3)	(10)
New Zealand income tax (paid)/refunded	(302)	51	(300)	-	-	-
Imputation credits attached to dividends received	(2)	-	(1)	(280)	(81)	(267)
Imputation credits attached to dividends paid	294	74	299	294	74	297
Balance (credit) at the end of the period	(126)	(1)	(3)	(3)	(10)	20
Minority interests	1	1	-	-	-	-
Net balance (credit) at the end of the period	(125)	-	(3)	(3)	(10)	20

NOTE 27 ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The following acquisitions and disposals impacted Telecom's financial statements in the year ended 30 June 2000:

- On 27 November 1999 Telecom purchased an additional 61.7% stake in AAPT, bringing the total shareholding at that date to 81.4%.
- On 10 February 2000 AAPT acquired a 60% stake in EC-Pay Pty Limited.
- On 31 March 2000 AAPT disposed of its entire 100% shareholding in AAPT Sat-Tel Pty Limited.
- On 1 June 2000 Telecom disposed of its entire 100% shareholding in ConnecTel Limited.

The effect of these acquisitions and disposals on the Group's assets and liabilities was:

	Telecom Group
(Dollars in millions)	NZ\$
Assets	
Current assets:	
Cash	3
Receivables and prepayments	168
Total current assets	171
Future tax benefit	14
Long-term investments	2
Intangibles	268
Fixed assets	266
Total assets	721
Liabilities	
Current liabilities:	
Bank overdraft	(1)
Accounts payable and accruals	271
Total current liabilities	270
Long-term debt	147
Total liabilities	417
Minority interests	69
Net assets acquired	235
Net consideration:	
Opening investment	(385)
Net cash paid	(1,113)
Goodwill arising on acquisition	1,279
Profit on disposal	(16)
	(235)

NOTE 28 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Operating revenues	Net abnormal revenue/ (expense)	Surplus from continuing operations	Surplus from continuing operations before income tax	Net earnings attributable to shareholders	Net earnings per share
<i>(Dollars in millions, except per share amounts)</i>	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Quarter ended:						
30 September 1999	887	-	365	337	209	0.119
31 December 1999	993	-	350	311	197	0.112
31 March 2000	1,239	15	380	328	205	0.117
30 June 2000	1,227	-	331	270	172	0.098
Year ended 30 June 2000	4,346	15	1,426	1,246	783	0.447
Transition period ended:						
30 June 1999 - audited	863	(7)	342	320	202	0.115
Quarter ended:						
30 June 1998	826	-	325	300	190	0.109
30 September 1998	869	-	359	328	206	0.118
31 December 1998	859	-	354	325	202	0.115
31 March 1999	896	1	362	337	224	0.128
Year ended 31 March 1999	3,450	1	1,400	1,290	822	0.469

Earnings per share is computed independently for each of the quarters presented. Consequently, the sum of the quarters does not necessarily equal total annual earnings per share.

NOTE 29 COMPARATIVE FINANCIAL INFORMATION (UNAUDITED)
Annual Balance Date Change

Effective 1 April 1999, Telecom changed its annual balance date from 31 March to 30 June. The unaudited consolidated Statement of Financial Performance for the three months ended 30 June 1998 and the year ended 30 June 1999 is presented below for comparative purposes.

	Three months ended 30 June 1998	Year ended 30 June 1999
<i>(Dollars in millions, except per share amounts)</i>	NZ\$	NZ\$
Operating revenues		
Local service	263	1,059
Calling	290	1,140
Interconnection	15	71
Cellular and other mobile services	113	502
Data	81	357
Other operating revenues	64	327
Abnormal revenues	-	31
	826	3,487
Operating expenses		
Labour	124	467
Depreciation	139	551
Cost of sales	109	459
Other operating expenses	129	556
Abnormal expenses	-	37
	501	2,070
Surplus from operations	325	1,417
Investment income	16	45
Interest expense	(41)	(152)
Surplus from operations before income tax	300	1,310
Income tax expense	(96)	(412)
Surplus from operations after income tax	204	898
Share of losses of associate company after income tax	-	(7)
Minority interests in profits of subsidiaries	-	(2)
Net surplus	204	889
Capital note distribution costs after income tax	(14)	(55)
Net earnings attributable to shareholders	190	834
Net earnings per share	\$0.109	\$0.476
Weighted average number of ordinary shares outstanding (in millions)	1,752	1,752

Notes to the Financial Statements

NOTE 30 SIGNIFICANT DIFFERENCES BETWEEN NEW ZEALAND AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRACTICE

The consolidated financial statements are prepared in accordance with generally accepted accounting practice ("GAAP") applicable in New Zealand ("NZ") which differs in certain significant respects from that applicable in the United States ("US"). These differences and the effect of the adjustments necessary to restate earnings and shareholders' funds are detailed below.

Effect on Net Earnings of Differences Between NZ GAAP and US GAAP

	Telecom Group			
	Year ended 31 March		Three months ended 30 June	Year ended 30 June
	1998	1999	1999	2000
<i>(Dollars in millions, except per share amounts)</i>	NZ\$	NZ\$	NZ\$	NZ\$
Net earnings in accordance with NZ GAAP	820	822	202	783
Add discontinued operations	(30)	-	-	-
	790	822	202	783
US GAAP adjustments:				
Depreciation of interest costs capitalised in prior years (a)	(9)	(9)	(2)	(9)
Deferred taxation (b)	28	19	(4)	13
Executive share ownership plan (c)	-	(16)	-	-
Provision for restructuring (d)	(62)	-	-	-
Provision for Year 2000 (e)	(14)	(48)	(7)	(17)
Provision for onerous contracts (f)	-	-	22	(14)
Share of losses of associate company (g)	-	-	-	(23)
Net earnings from continuing operations in accordance with US GAAP	733	768	211	733
Discontinued operations	30	-	-	-
Net earnings in accordance with US GAAP	763	768	211	733
Basic earnings per share from continuing operations in accordance with US GAAP (m)	\$0.410	\$0.438	\$0.120	\$0.418
Basic earnings per share from discontinued operations in accordance with US GAAP	\$0.017	-	-	-
Basic net earnings per share in accordance with US GAAP	\$0.427	\$0.438	\$0.120	\$0.418
Diluted earnings per share from continuing operations in accordance with US GAAP (m)	\$0.410	\$0.439	\$0.120	\$0.417

Cumulative Effect on Shareholders' Funds of Differences Between NZ GAAP and US GAAP

	Telecom Group			
	Year ended 31 March		Three months ended 30 June	Year ended 30 June
	1998	1999	1999	2000
<i>(Dollars in millions)</i>	NZ\$	NZ\$	NZ\$	NZ\$
Shareholders' funds in accordance with NZ GAAP	1,063	1,085	1,086	1,130
Capitalisation of interest costs, net of accumulated depreciation (a)	50	41	39	30
Deferred taxation (b)	(46)	(27)	(31)	(18)
Provision for dividend (h)	140	202	202	202
Executive share ownership plan (c)	(3)	-	-	-
Provision for Year 2000 (e)	72	24	17	-
Provision for onerous contracts (f)	-	-	22	8
Share of losses of associate company (g)	-	-	-	(23)
Accumulated unrealised holding loss on available-for-sale securities (n)	-	-	-	(8)
Shareholders' funds in accordance with US GAAP	1,276	1,325	1,335	1,321

NOTE 30 Significant Differences Between New Zealand and United States Generally Accepted Accounting Practice
(continued)

(a) Capitalisation of Interest Costs Relating to the Construction of Property, Plant and Equipment

Prior to 1 April 1989, Telecom did not capitalise interest costs incurred in connection with the financing of expenditures for the construction of telecommunications equipment and other fixed assets. In the year ended 31 March 1990, Telecom changed that policy such that, for each fixed asset project having a cost in excess of \$10 million and a construction period of not less than 12 months, interest costs incurred during the period that is required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost. In the year ended 31 March 1996, Telecom changed that policy further such that, for each fixed asset project having a cost in excess of \$100,000 and a construction period of not less than three months, interest costs incurred during the period that is required to complete and prepare the fixed asset for its intended use are capitalised as part of the total cost. The policy was changed again from 1 April 1999 such that interest costs are capitalised for all fixed asset projects.

Under US GAAP, interest costs incurred in connection with the financing of all expenditure for the construction of fixed assets are required to be capitalised during the period required to prepare the fixed asset for its intended use. For the purpose of compliance with US GAAP, the estimated amount of interest that would have been capitalised on construction costs incurred on capital projects not already capitalised in accordance with Telecom's accounting policy has been determined and depreciated over the lives of the related assets. As a result of the change in accounting policy during the year ended 31 March 1996, which brought NZ GAAP accounting treatment in respect of capitalised interest into alignment with US GAAP in all material respects, the ongoing reconciling difference within net earnings will comprise the depreciation charge on interest not capitalised under NZ GAAP prior to 1 April 1995.

(b) Deferred Taxation

Under NZ GAAP, Telecom uses the partial liability method to account for taxation whereby all items expected to reverse in the foreseeable future are recognised, whereas under US GAAP the comprehensive liability method is used.

The components of the US GAAP net deferred tax liability at 30 June 2000, 30 June 1999 and 31 March 1999 amounting to \$31 million, \$56 million, and \$27 million respectively, are as follows:

	Telecom Group					
	Deferred tax asset			Deferred tax liability		
	31 March 1999	30 June 1999	30 June 2000	31 March 1999	30 June 1999	30 June 2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$	NZ\$
Depreciation	19	14	14	(119)	(113)	(145)
Restructuring provisions	12	9	2	-	-	-
Tax losses in overseas subsidiary company	-	-	32	-	-	-
Provisions, accruals and other	105	90	105	(64)	(50)	(57)
Valuation allowance	(6)	(6)	(7)	-	-	-
Supplementary dividend tax credit	26	-	25	-	-	-
	156	107	171	(183)	(163)	(202)

Included in the net deferred tax liability at 30 June 2000 of \$31 million is a net current asset of \$124 million and a net non-current liability of \$155 million. The net deferred tax liability at 30 June 1999 of \$56 million included a net current asset of \$90 million and a net non-current liability of \$146 million. The net deferred tax liability at 31 March 1999 of \$27 million included a net current asset of \$129 million and a net non-current liability of \$156 million.

(c) Executive Share Ownership Plan

The liquidation of Telecom's Executive Plan was completed in March 1999. The Trustee of the Executive Plan had disposed of the 1.9 million unallocated shares and remitted the proceeds to Telecom. Under NZ GAAP the net proceeds from the liquidation of the Executive Plan of \$16 million were recorded as abnormal revenue in the Statement of Financial Performance. Under US GAAP the unallocated shares remaining at the time of liquidating the Executive Plan must be considered un-issued. Under US GAAP when a company sells previously un-issued shares in itself, the net proceeds from the sale are accounted for as paid-in capital.

Under NZ GAAP, compensation expense relating to the Executive Plan was recognised systematically over the life of the plan based on the actual cost of the shares of \$2 each. Under US GAAP, the Executive Plan would have been treated as a variable stock award plan and, as such, the compensation expense recognised over the life of the plan would be adjusted in each accounting period for changes in the quoted market price of the Company's shares. Additionally, under US GAAP, the shares issued under the plan would not have been recognised as share capital until they vested and would not all have been recognised as outstanding for the purpose of determining the weighted average number of shares for earnings per share calculations.

NOTE 30 Significant Differences Between New Zealand and United States Generally Accepted Accounting Practice
(continued)

Reconciliation of the cumulative effect of the Executive Plan on shareholders' funds:

	Telecom Group		
	31 March 1999	30 June 1999	30 June 2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$
Opening balance	(3)	-	-
Shares vested, net	18	-	-
US GAAP reversal of NZ GAAP liquidation profit	(16)	-	-
Dividends paid on treasury stock	1	-	-
	-	-	-

(d) Provision for Restructuring

Under US GAAP, provisions for restructuring may only be accrued where a detailed announcement describing the restructuring has been made prior to balance date.

(e) Provision for Year 2000

Under US GAAP, the costs relating to Year 2000 modifications should be expensed as incurred. Consequently, the accrual of such costs is not permitted.

(f) Provision for Onerous Contracts

Under US GAAP, the costs relating to these onerous contracts should be expensed as incurred. Consequently, the accrual of such costs is not permitted.

(g) Share of Losses of Associate Company

Under NZ GAAP where the carrying amount of an equity investment in an associate falls below zero, the equity method of accounting is suspended and the investment is recorded at zero. If this occurs, the equity method of accounting is not resumed until such time as the Group's share of losses and reserve decrements not recognised during the financial years in which the equity method was suspended, are offset by the current share of profits and reserves.

Under US GAAP net losses continue to be accrued until both the equity investment and any advance balance are reduced to zero.

(h) Provision for Dividend

Under NZ GAAP, dividends provided by the Board of Directors after the end of an accounting period, but in respect of that period, are deducted in arriving at retained earnings at the end of that accounting period. Under US GAAP, such dividends are provided in the period in which they are declared by the Board of Directors. The dividend included for the purpose of the US GAAP reconciliation is net of the effect of the supplementary dividend and associated tax credit.

(i) Statement of Cash Flows

Under both NZ GAAP and US GAAP, a Statement of Cash Flows, which discloses cash flows from operating, investing and financing activities, is required to be presented. Under US GAAP, bank overdrafts would be reclassified as a financing activity rather than a component of cash position. In addition, short-term deposits with original maturities of three months or less would generally qualify as a component of cash position. Accordingly, the closing cash position under US GAAP at 30 June 2000, 30 June 1999 and 31 March 1999 would be \$342 million, \$84 million and \$68 million respectively.

(j) Research and Development Expenditure

Under NZ GAAP, research and development costs are charged to expenses as incurred except where, in the case of development costs, future benefits are expected beyond any reasonable doubt to exceed these costs. Where development costs are deferred, they are amortised over future periods on a basis related to future benefits. For the purpose of compliance with US GAAP, all research and development costs must be expensed as incurred. As at 30 June 2000, 30 June 1999 and 31 March 1999 there were no significant amounts of deferred development costs.

(k) Share Repurchase

Under US GAAP, the share repurchase would have been accounted for differently such that the amount of the share repurchase would have been allocated amongst individual components of shareholders' funds.

NOTE 30 Significant Differences Between New Zealand and United States Generally Accepted Accounting Practice
(continued)

(i) Share Options

SFAS 123 ("Accounting for Stock-Based Compensation") requires that Telecom calculate the value of stock options at the date of grant using an option pricing model. Telecom has elected the "pro forma disclosure only" option permitted under SFAS 123 instead of recording a charge to operations, as shown below:

		Telecom Group			
		Year ended 31 March		Three months ended 30 June	Year ended
		1998	1999	1999	2000
		NZ\$	NZ\$	NZ\$	NZ\$
<i>(Dollars in millions, except per share amounts)</i>					
US GAAP:					
Net earnings	As reported	763	768	211	733
	Pro forma	761	766	210	729
Basic earnings per share	As reported	\$0.427	\$0.438	\$0.120	\$0.418
	Pro forma	\$0.426	\$0.437	\$0.120	\$0.416

The pro forma amounts have been determined using the Black Scholes option pricing model based on the following weighted average assumptions:

Telecom share options				
	Year ended 31 March		Three months ended 30 June	Year ended
	1998	1999	1999	2000
Risk-free interest rate	7.2%	6.4%	5.95%	6.8%
Expected dividend yield	5.9%	5.1%	6.3%	5.8%
Expected option life (in years)	6.0	6.0	6.0	6.0
Expected stock price volatility	22.6%	24.0%	24.0%	23.0%
Discount to reflect restrictive terms of the options	0%	25.0%	25.0%	25.0%

AAPT share options				
	Seven months ended 30 June			
	2000			
Risk-free interest rate	6.5%			
Expected dividend yield	0%			
Expected option life (in years)	5.0			
Expected stock price volatility	41%			

(m) Earnings Per Share

SFAS 128 ("Earnings Per Share"), requires companies to present basic earnings per share and diluted earnings per share. The numerators and the denominators used in the computation of basic and diluted earnings per share pursuant to SFAS 128 are reconciled below:

Telecom Group				
	Year ended 31 March		Three months ended 30 June	Year ended
	1998	1999	1999	2000
<i>(Dollars in millions, except per share amounts)</i>				
Basic EPS Computation				
Numerator – net earnings from continuing operations	\$733	\$768	\$211	\$733
Denominator – ordinary shares (in millions)	1,786	1,752	1,753	1,753
Basic EPS – continuing operations	\$0.410	\$0.438	\$0.120	\$0.418
Diluted EPS Computation				
Numerator:				
Net earnings from continuing operations	\$733	\$768	\$211	\$733
Add capital note distribution costs after income tax	\$26	\$55	\$13	\$54
	\$759	\$823	\$224	\$787
Denominator (in millions):				
Ordinary shares	1,786	1,752	1,753	1,753
Capital notes	65	121	120	135
Options	–	–	1	–
	1,851	1,873	1,874	1,888
Diluted EPS – continuing operations	\$0.410	\$0.439	\$0.120	\$0.417

Notes to the Financial Statements

NOTE 30 Significant Differences Between New Zealand and United States Generally Accepted Accounting Practice (continued)

(n) Comprehensive Income

	Telecom Group			
	Year ended 31 March		Three months ended 30 June	Year ended 30 June
	1998	1999	1999	2000
(Dollars in millions)	NZ\$	NZ\$	NZ\$	NZ\$
Net earnings in accordance with US GAAP	763	768	211	733
Other comprehensive income:				
Foreign currency translation adjustments (see Note 18)	1	-	1	48
Unrealised holding loss on available-for-sale securities	-	-	-	(8)
Other comprehensive income, net of taxation	1	-	1	40
Total comprehensive income	764	768	212	773

Accumulated other comprehensive income, a component of shareholders' funds in accordance with US GAAP, totalled \$41 million at 30 June 2000 (30 June 1999: \$1 million, 31 March 1999: Nil, 31 March 1998: Nil).

SFAS 115 ("Accounting for Certain Investments in Debt and Equity Securities") requires equity securities to be classified as either 'trading securities' or 'available-for-sale securities'. Telecom's investments in INL and eVentures are not held for the purpose of short-term trading and therefore meet the definition of available-for-sale securities. Available-for-sale securities must be carried at fair value with unrealised gains and losses reported as a component of other comprehensive income.

As at 30 June 1999, Telecom's investment in AAPT also met the definition of an available-for-sale security and an associated holding loss of \$49 million was recognised. In the year ended 30 June 2000 Telecom increased its shareholding in AAPT to approximately 80%. As this investment no longer meets the definition of an available-for-sale security, the loss has been reversed in the pro forma disclosure for the three months ended 30 June 1999.

(o) Acquisition of AAPT

APB 16 "Business Combinations" requires certain unaudited pro forma disclosures be presented when a subsidiary is acquired. The following pro forma consolidated results of operations are presented as if the acquisition of a controlling interest in AAPT had taken place at the beginning of the current and preceding years. The effects of other acquisitions on the consolidated financial statements are not significant and have been excluded from the pro forma presentation.

	Telecom Group	
	Year ended 30 June	
	1999	2000
(Dollars in millions, except per share amounts)	NZ\$	NZ\$
Operating revenues	4,384	4,793
Net earnings attributable to shareholders	684	660
Basic earnings per share	\$0.390	\$0.376
Diluted earnings per share	\$0.391	\$0.378

The pro forma consolidated results of operations include adjustments to give effect to amortisation of goodwill, interest expense on acquisition debt and certain other adjustments, together with related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

PricewaterhouseCoopers
113-119 The Terrace
PO Box 243
Wellington, New Zealand
Telephone +64 4 462 7000
Facsimile +64 4 462 7001

**Auditors' Report to the Shareholders of
Telecom Corporation of New Zealand Limited**

We have audited the financial statements on pages 36 to 71. The financial statements provide information about the past financial performance and cash flows of the Company and the Telecom Group for the year ended 30 June 2000 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 43 to 45.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and the Telecom Group as at 30 June 2000 and their financial performance and cash flows for the year ended on that date.

Auditors' responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the Company and the Telecom Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carries out other assignments on behalf of the Company and its subsidiaries in the area of taxation compliance, accounting policy advice and consultancy assignments.

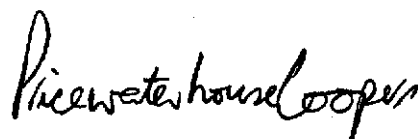
Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 36 to 71 expressed in New Zealand dollars:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the Company and the Telecom Group as at 30 June 2000 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 10 August 2000 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Wellington

Interests Register

The following are particulars of entries made in the Interests Register for the period 1 July 1999 to 30 June 2000:

Disclosures of Interest

Directors disclosed interests, or a cessation of interest, in the following entities pursuant to section 140 of the Companies Act 1993.

Roderick Deane

Entity	Relationship
TransAlta New Zealand Limited	Ceased to be a Director and Chairman
TransAlta Canada Limited	Appointed a Director
Woolworths Limited	Appointed a Director

Theresa Gattung

Entity	Relationship
AAPT Pty Limited	Appointed a Director

Patsy Reddy

Entity	Relationship
Trilogy Corporation Limited	Associated person of a shareholder
New Zealand Opera Limited	Director
Victoria University Foundation	Ceased to be a Trustee
NZSO Foundation	Ceased to be a Trustee
Georgia Pacific New Zealand Company	Director
Caterpillar New Zealand Funding Company	Director
Air New Zealand Limited	Ceased to be a Director
Active Equities Limited	Director and Shareholder
TeamTalk Limited	Associated person of a shareholder

Indemnity and Insurance

Indemnities were given to certain senior staff in relation to potential liabilities and costs such staff may incur for acts or omissions in their capacity as employees of Telecom, Directors of Telecom subsidiaries or Directors of non-Telecom companies in which Telecom holds interests namely Southern Cross, AAPT and EDS.

An indemnity was also given to a partner of Blake Dawson Waldron ("BDW") in the partner's capacity as a Director of TCNZ Australia Pty Limited. This indemnity extended to the other partners of BDW for claims arising out of BDW permitting the partner to act as a Director. Indemnities were also given to two other Directors of TCNZ Australia Pty Limited in their capacity as Directors of TCNZ Australia Pty Limited.

During the year, the Directors' and Officers' liability insurance was renewed to cover risks normally covered by such policies arising out of acts or omissions of Directors and employees in their capacity as such.

Relevant Interests in Shares

Directors disclosed pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interests in Telecom shares:

Roderick Deane

Date of Disposal/Acquisition	Consideration	Number of shares Acquisitions/(Dispositions)
8 December 1999	\$859,000	(100,000)
8 December 1999	\$553,724	(64,763)
14 December 1999	\$953,440	(106,300)

John King

Date of Disposal/Acquisition	Consideration	Number of shares Acquisitions/(Dispositions)
20 July 1999	\$328,440	(39,100)
21 July 1999	\$252,000	(30,000)
21 July 1999	\$84,500	(10,000)
24 August 1999	\$83,942	(10,096)
8 October 1999	\$74,496	(9,700)

Patsy Reddy

Date of Disposal/Acquisition	Consideration	Number of shares Acquisitions/(Dispositions)
3 September 1999	\$17,260	2,000
16 June 2000	\$1,380	175

Other Disclosures**Equity Securities Held by Directors**

The table below sets out the relevant interests in equity securities of Directors and Associated Persons of Directors at 30 June 2000 for the purposes of Listing Rule 10.5.3 of the New Zealand Stock Exchange Listing Rules:

	Relevant Interest of Director	Relevant Interest of Associated Person
P Shirtcliffe	-	-
R Deane	1,028,958 ⁽¹⁾	-
P Baines	10,000	-
J King	227,080	60,000
P Reddy	12,175	-
T Gattung	427,026 ⁽²⁾	-
M Tyler	-	-

⁽¹⁾ Includes options.

⁽²⁾ Options.

Employee Remuneration

The number of employees (including employees holding office as Directors of subsidiaries) whose remuneration and benefits is within specified bands is as follows:

Remuneration Range NZ\$	Number of Employees	Number of employees acting as Directors of subsidiary companies
1,080,001 - 1,090,001	1	1
960,001 - 970,000	1	1
480,001 - 490,000	1	1
430,001 - 440,000	1	
390,001 - 400,000	1	1
380,001 - 390,000	2	1
360,001 - 370,000	4	1
350,001 - 360,000	2	2
330,001 - 340,000	1	
320,001 - 330,000	5	2
310,001 - 320,000	2	1
300,001 - 310,000	2	1
290,001 - 300,000	2	1
280,001 - 290,000	6	
270,001 - 280,000	3	1
260,001 - 270,000	4	2
250,001 - 260,000	2	1
240,001 - 250,000	2	1
230,001 - 240,000	9	1
220,001 - 230,000	6	1
210,001 - 220,000	8	3
200,001 - 210,000	8	1
190,001 - 200,000	7	
180,001 - 190,000	13	
170,001 - 180,000	21	3
160,001 - 170,000	27	2
150,001 - 160,000	31	
140,001 - 150,000	47	
130,001 - 140,000	62	2
120,001 - 130,000	68	1
110,001 - 120,000	124	1
100,000 - 110,000	178	

Employees also receive telephone concessions which can (depending on the nature of the concession) include free telephone line rental, national and international phone calls and online services.

Two employees who act as Directors of subsidiary companies received less than \$100,000 during the reporting period.

The above list contains information on employees in Telecom's off-shore subsidiaries including the AAPT group of companies. Amounts are converted into New Zealand dollars where appropriate.

Directors' Remuneration

During the year to 30 June 2000, the total remuneration and value of other benefits received by the Directors of the Company was as follows:

Name	Total remuneration NZ\$
Roderick Deane ¹	1,926,293
Peter Shirtcliffe	123,750
Theresa Gattung ²	805,076
John King	100,000
Patsy Reddy	110,000
Paul Baines	117,813
Michael Tyler	105,417

¹ Includes salary, options and EVA bonus for part of the year and Directors' fees for part of the year. Dr Deane retired as Chief Executive on 30 September 1999. He commenced as Chairman of the Board on 1 October 1999.

² Principally salary. Ms Gattung does not receive Directors fees.

Substantial Security Holders

According to notices given under the Securities Amendment Act 1988 the following persons were substantial securities holders in Telecom Corporation of New Zealand Limited as at 18 August 2000 in respect of the number of voting securities set opposite their names:

The Capital Group Companies, Inc	87,650,880
Brandes Investment Partners, LP	133,234,295
Franklin Resources Inc	106,025,108
Bell Atlantic Corporation	437,080,670
Bell Atlantic Holdings Limited	

The total number of issued voting securities of Telecom Corporation of New Zealand Limited as at that date was 1,755,413,444. This figure includes 1 Kiwi Share.

Stock Exchange Waivers**CBA Outsourcing**

In July 2000, following success in a tender process, the Company's subsidiary TCNZ Australia Pty Limited ("TCNZA") was selected by the Commonwealth Bank of Australia ("CBA") to manage and deliver telecommunications services to meet CBA's business requirements throughout Australia. The Company obtained a waiver from the requirement in Listing Rule 9.2.1 for shareholder approval of related party transactions in connection with this outsourcing transaction.

EDS Outsourcing

In July 1999, the Company entered into a major outsourcing transaction with EDS (New Zealand) Limited ("EDS (NZ)") under which EDS (NZ) will manage and operate the Company's company-wide information systems and technology delivery. In connection with the outsourcing, the Company, EDS (NZ) and Microsoft (NZ) Limited entered into an alliance to provide online services to business customers in New Zealand ("the online venture"), and the Company acquired a 10% holding in EDS (NZ) and options to acquire up to a 49% holding ("the equity arrangement"). The Company obtained a waiver from the requirement in Listing Rule 9.2.1 for shareholder approval of related party transactions in connection with the outsourcing transaction, the online venture and the equity arrangement.

TCNZ Finance Limited Quotation of Capital Notes

The Company's subsidiary TCNZ Finance Limited ("TFL") has issued Capital Notes ("TeleNotes") which are quoted on the Stock Exchange. TFL obtained a waiver from Listing Rule 1.9.1 (Listing Rules which apply to issuers if equity securities quoted) on the basis that Listing Rule 1.9.2 (Listing Rules which apply to issuers if no equity securities quoted) would apply in respect of the TeleNotes.

Southern Cross

In 1998 the Company entered into the Southern Cross project ("the project") with Optus and WorldCom to establish the Southern Cross Cable. The Company obtained a waiver from the requirement in Listing Rule 9.2.1 for shareholder approval of material transactions with related parties in respect of any future transactions that might be entered into with Optus and WorldCom which are unrelated to the project. The waiver was granted on the conditions that: (i) the sole reason for the parties being related in terms of the Listing Rules is their involvement in the project, the parties are not related in any other way and the transaction does not otherwise fall within Listing Rule 9.2; and (ii) the transaction must be entered into where there has been no material change in the interests held by the parties in the project and no material change to the rules and relationships of the parties within the joint venture.

Donations

The donation expense for the year was \$24,000. In addition, Telecom makes available telecommunications services free of charge or at reduced rates to the community, principally the 111 emergency service, and also provides substantial support to educational and charitable organisations. In the year under review, the operating costs to Telecom of these community programmes were approximately \$19 million, including cash payments, revenue foregone and operating costs directly attributable to particular programmes.

Subsidiary Company Directors

The following people held office as Directors of subsidiary companies at the end of the period to 30 June 2000, or retired during the period – indicated with an (R). Alternate Directors are indicated with an (A).

AAPT (NZ) Limited A Rogge, R Nissen, A Sharma, S Picton (R).
AAPT Finance Pty Limited A Rogge, R Nissen, L Williams, S Picton (R).
AAPT Holdings (Inc) A Rogge, R Nissen, S Picton (R). **AAPT Investments Pty Limited** A Rogge, R Nissen, L Williams, S Picton (R).
AAPT LMDS Pty Limited A Rogge, R Nissen, S Picton (R). **AAPT Networks Pty Limited** L Williams, A Rogge, R Strangman, S Picton (R).
AAPT Pty Limited M Bogoevski, T Gattung, L Williams, CL Casey, E Eidenberg, R McGeoch. **AAPT US Inc** A Rogge, R Nissen, S Picton (R).
AAPT Wireless Holdings Pty Ltd L Williams, A Rogge, R Nissen, R Dagleish (R). **AAPT Wireless Pty Limited** L Williams, A Rogge, R Nissen, S Picton (R). **ATT@Phone Pty Limited** D Glavonjic. **Baird Invest. Pty Limited** L Williams, A Rogge, R Nissen, S Picton (R). **Birrell Properties Limited** DJ Bedford, MR Gillespie (R). **Cellphone City Limited** M Jesudason, CF Barclay (R), CG Aitken (R), G Clarke (R), TJ Harrington (R).
Cellular One Communications Limited L Williams, R Nissen, D Baird (R), S Picton (R), M Baird (R). **Commerce Solutions Limited** L Williams, A Rogge, R Nissen, D Glavonjic, S Picton (R). **Comswest Pty Limited** AH Churchill, JC Bell. **connect.com.au Pty Limited** L Williams, A Rogge, R Nissen, D Glavonjic, S Picton (R), J Stuckey (R). **corpTEL Comm Limited** L Williams, A Rogge, R Nissen, S Picton (R). **corpTEL Mobile Pty Limited** L Williams, A Rogge, R Nissen, S Picton (R). **corpTEL Networks Pty Limited** A Rogge, R Nissen, S Picton (R). **corpTEL Pty Limited** L Williams, A Rogge, R Nissen, S Picton (R). **Digital Video Productions Pty Limited** AH Churchill, DJ Bedford, CE Greville (R), MR Gillespie (R). **Digital Video Services Pty Limited** JC Bell, AH Churchill. **EC-Pay Pty Limited** A Rogge, D Glavonjic, J Begley, A Robertson (A). **First Media Limited** DJ Bedford, MR Gillespie (R). **Interconnect Pty Limited** A Rogge, L Williams, D Glavonjic, S Picton (R), N Stuckey, (R). **New Zealand Telecommunication Systems Support Centre Limited** MO Milner, CJ Scollay, S Inoue, AN Briscoe (R), Y Yoshida (R), C Wakefield (R). **Ozphone Pty Limited** L Williams, A Rogge, R Nissen, S Picton (R). **Pacific Star Communications (NSW) Pty Limited** JC Bell, AH Churchill. **Pacific Star Communications (QLD) Pty Limited** JC Bell, AH Churchill. **Pacific Star Communications Pty Limited** JC Bell, RL Edwards, AH Churchill. **Pacific Star Mobile Pty Limited** K Devonshire, AH Churchill. **Pacific Star Services Pty Limited** JC Bell, AH Churchill. **Pacific Star Technologies**

Pty Limited JC Bell, AH Churchill. **Parzolo Pty Limited** A Rogge, R Nissen, S Picton (R). **Queensland Cable Limited** L Williams, A Rogge, R Nissen, A Sharma, S Picton (R). **Seraph Comm Pty Limited** L Williams, A Rogge, R Nissen, D Baird (R), S Picton (R). **Stottholm Holdings Limited** R Nissen, A Rogge, A Sharma. **Sunnet Pty Limited** JC Bell, AH Churchill. **TCNZ (Bermuda) Limited** I Stone, J Collis, JC Bell, D Poole (A), C Adderley (A), K Pearce (A), PJ Duignan (A), MR Gillespie (R). **TCNZ (UK) Investments Limited** PJ Duignan, M Bogoevski, JM White (R), MR Gillespie (R). **TCNZ (UK) Securities Limited** PJ Duignan, R Walker, B Roberts, S Rumball. **TCNZ Australia Investments Pty Limited** M Bogoevski, AH Churchill, LR Edwards, JC Bell (R), JM White (R). **TCNZ Cook Islands Holdings Limited** DJ Bedford, PA Garty, MR Gillespie (R). **TCNZ Cook Islands Limited** DJ Bedford, PA Garty, MR Gillespie (R). **TCNZ Equities Limited** M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R), LM Cox (R). **TCNZ Finance Limited** TE Gattung, PJ Duignan, M Bogoevski, M Bogoevski (A) JM White (R), MR Gillespie (R), RS Deane (R), LM Cox (R). **TCNZ Financial Services Limited** M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R), LM Cox (R). **Teleco Insurance (NZ) Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), JM White (R), LM Cox (R). **Telecom 1999 Limited** GA Mitchell, M Bogoevski, LM Cox (A), KG Stephen (R). **Telecom 2000 Limited** M Jesudason. **Telecom Cook Islands Limited** P Garty, C Jarvie, DJ Bedford (R). **Telecom Corporation of New Zealand (Overseas Finance) Limited** B Putterill, M Austen, M Bogoevski, MR Gillespie (R), PJ Duignan (R). **Telecom Credit Limited** M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R), LM Cox (R). **Telecom Directories Limited** GR Mitchell, DJ Bedford (R), MR Gillespie (R). **Telecom Enterprises Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R). **Telecom Europe Holdings Aps** JJM Verhaak, LB Jeppesen, M Bogoevski, JM White (R), PC Olsen (R), STP de Greeff (R). **Telecom Europe Aps** JJM Verhaak, LB Jeppesen, M Bogoevski, JM White (R), PC Olsen (R), STP de Greeff (R). **Telecom Investments Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R). **Telecom IT Investments Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R). **Telecom N.Z. Limited** M Bogoevski, LM Cox (A), MR Gillespie (R). **Telecom New Zealand (UK) Licences Limited** AN Briscoe, SJ Rimmer, ACM Blaikie, SJ Rimmer. **Telecom New Zealand Australia Pty Limited** M Bogoevski, JC Bell, L Edwards, AH Churchill, MR Gillespie (R). **Telecom New Zealand Finance Limited** PJ Duignan, M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R). **Telecom New Zealand International Limited** DJ Bedford. **Telecom New Zealand International Australia Pty Limited** AN Briscoe, A Churchill. **Telecom New Zealand Japan Kabushiki Kaisha** AN Briscoe, CN Angrove, DJ Bedford, A Tierney (R), E Ikekame (R), M Ikeda (R), K Toma (R), E Sakaguchi (R). **Telecom New Zealand Limited** TE Gattung, DJ Bedford, M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R). **Telecom New Zealand UK Limited** AN Briscoe, SJ Rimmer, ACM Blaikie, SJ Rimmer. **Telecom New Zealand USA Limited** AN Briscoe, IA Neale, LB Miller, DJ Bedford. **Telecom Pacific Investments Limited** DJ Bedford, MR Gillespie (R). **Telecom Pacific Limited** JC Bell, M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R). **Telecom Pagenet Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R). **Telecom Purchasing Limited** M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R), LM Cox (R). **Telecom Samoa Cellular Limited** AN Briscoe, SE Tuioti, SR Petaia, DJ Bedford, CN Angrove. **Telecom Southern Cross Finance Limited** J Collis, I Stone, P Duignan, KA Pearce (A), D Poole (A), C Adderley (A), R Rawlins (R), A Tucker (R), A Simmons (R), JM White (R), KA Pearce (R). **Telecom Southern Cross Limited** M Bogoevski, PJ Duignan (A), MR Gillespie (R), JC Bell (R). **Telecom Telpage Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R). **Telecom US Leasing Limited** DJ Bedford, M Bogoevski, PJ Duignan (A), JM White (R). **Telecom Wellington Investments Limited** M Bogoevski, LM Cox (A), JM White (R), MR Gillespie (R), LM Cox (R). **The Mobile Phone Company Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R). **Wanzilla Pty Limited** A Rogge, R Nissen, S Picton (R). **Yellow Pages Limited** M Bogoevski, LM Cox (A), MR Gillespie (R), LM Cox (R).

**Twenty Largest Registered Shareholders
as at 18 August 2000**

Rank	Full Name	Total	Percentage
1	New Zealand Central Securities Depository Limited	1,053,999,353	60.04
2	Bell Atlantic Holdings Limited	437,080,670	24.89
3	NZ Guardian Trust Company Limited - Corporate Trusts Number 5 Account	10,000,000	0.56
4	Perpetual Nominees Limited <PMISF a/c>	9,428,490	0.53
5	NZ Guardian Trust Company Limited	7,541,754	0.42
6	Mercantile Mutual Life Insurance Company Limited	6,471,118	0.36
7	Perpetual Trustees Nominees Limited	6,341,219	0.36
8	Citicorp Nominees Pty Limited	4,856,460	0.27
9	Queensland Investment Corporation	4,712,729	0.26
10	National Nominees Limited	4,338,938	0.24
11	Debenture Nominees Limited	3,769,146	0.21
12	Guardian Assurance Limited <equity fund>	3,458,800	0.19
13	Chase Manhattan Nominees Limited	3,350,456	0.19
14	Merrill Lynch (New Zealand) Limited	2,104,018	0.11
15	Debenture Nominees Limited	1,675,916	0.09
16	Perpetual Nominees Limited <CIS a/c>	1,672,982	0.09
17	Amcil Limited	1,450,000	0.08
18	MLC Limited	1,407,652	0.08
19	Tower Trust Limited	1,293,462	0.07
20	Athene Nominees Limited	1,225,000	0.06

Analysis of Shareholding as at 18 August 2000

Range	Holder		Holding	
	Count	%	Quantity	%
1 to 499	8,677	15.19	2,604,385	0.15
500 to 999	10,663	18.66	7,421,058	0.42
1,000 to 4,999	29,713	52.00	60,064,555	3.42
5,000 to 9,999	4,934	8.63	31,113,015	1.77
10,000 to 49,999	2,877	5.04	46,295,991	2.64
50,000 and over	276	0.48	1,607,914,439	91.60
Total	57,140	100.00	1,755,413,443	100.00

Constitution

The Company is registered under the Companies Act 1993. New Zealand Stock Exchange rules require listed companies to include in their constitution one of three sets of provisions related to takeovers. The Company's Constitution contains Notice and Pause Provisions restricted to insiders.

Stock Exchange Listing

The ordinary shares of Telecom Corporation of New Zealand Limited ("Telecom shares") are listed on the New Zealand Stock Exchange and Australian Stock Exchange. Telecom shares are listed on the New York Stock Exchange in the form of American Depositary Shares.

Financial Calendar

Annual meeting	12 Oct 00
2000-01 First quarter results announced	14 Nov 00
First quarter dividend paid	Dec 00
2000-01 Half year results announced	Feb 01
Second quarter dividend paid	Mar 01
2000-01 Third quarter results announced	May 01
Third quarter dividend paid	Jun 01
2000-01 Financial Year end	30 Jun 01

Annual Meeting of Shareholders

Telecom's Annual Meeting of Shareholders will be held at the Michael Fowler Centre, Wakefield Street, Wellington, on Thursday, 12 October 2000 at 2.30 pm. A Notice of Annual Meeting and Proxy Form are circulated to shareholders with this Annual Report.

Registered Office

The registered office of Telecom is:

Telecom Networks House
68 Jervois Quay
PO Box 570
Wellington

Dividend Policy

Telecom's dividend policy is to distribute around 50% of net earnings, provided that the Company does not have alternative cash requirements for investment and other purposes.

Telecom's policy is to distribute net earnings through quarterly dividends, thereby reducing the time taken to distribute cash to shareholders. Details of these payments are released in conjunction with quarterly and annual announcements.

Telecom intends to continue paying fully-imputed dividends. Dependent on the level of imputation credits attached to dividends, the Company will pay supplementary dividends to non-resident portfolio shareholders. (The latter are non-resident shareholders who individually hold less than 10% of the shares). Supplementary dividends offset the effect of non-resident withholding tax. Telecom receives from the Inland Revenue Department a tax credit equivalent to supplementary dividends and there is, accordingly, no disadvantage to New Zealand resident shareholders. Some non-resident shareholders whose dividend income is taxable can claim a tax credit for the non-resident withholding tax which has been deducted.

Dividend Reinvestment Plan

As part of its shareholder relations programme, Telecom operates a Dividend Reinvestment Plan which offers shareholders the opportunity to directly increase their investment in Telecom. Shareholders may opt for full or partial participation in the plan. A copy of the Dividend Reinvestment Plan Offer Document and Participation Notice may be obtained on request from Telecom's share registries.

Dividends paid

The following is a summary of all dividends paid by Telecom since listing in July 1991. NZ cents per ordinary share, US cents per American Depositary Share (ADS).

	1st quarter	2nd quarter	3rd quarter	4th quarter
1992 NZ cents		6.50		6.50
US cents		72.62		70.93
1993 NZ cents		7.25		8.25
US cents		74.49		91.34
1994 NZ cents		8.25		14.75
US cents		89.90		141.46
1995 NZ cents		13.50		16.50
US cents		135.82		172.10
1996 NZ cents		17.00	8.50	9.50
US cents		178.05	91.66	103.36
1997 NZ cents	9.50	9.50	9.50	10.50
US cents	104.60	106.10	104.50	57.90
1998 NZ cents	10.50	10.50	10.50	8.00
US cents	62.65	49.19	55.96	32.99
1998 special dividend				
NZ cents			3.50	
US cents			18.05	
1999 NZ cents	11.50	11.50	11.50	11.50
US cents	46.55	47.95	48.95	48.97
1999 Interim June quarter				
NZ cents	11.50			
US cents	48.11			
2000 NZ cents	11.50	11.50	11.50	11.50
US cents	45.18	44.72	43.15	43.15*

* Estimated based on an exchange rate at 30 June of NZ\$1 to US\$0.4690.

Shareholder Inquiries

Shareholders with inquiries about transactions, changes of address or dividend payments should contact Telecom's share registries.

New Zealand Registry

Computershare Registry Services Ltd
Level 3, 277 Broadway, Newmarket, Auckland.
(Private Bag 92119, Auckland)
Ph 0-9-522 0022
Fax 0-9-522 0058
NZ Toll Free 0800-737-100

United States Registry

Citibank Shareholder Services
PO Box 2502
Jersey City, NJ 07303-2502
US toll free 1877-248-4237
www.citibank.com/adr

Australian Registry

Computershare Registry Services Ltd
Level 3, 60 Carrington Street
Sydney, NSW 1137,
Australia
(GPO Box 7045, Sydney)
Ph 02 8234 5000
Fax 02 8234 5050
www.cshare.com.au

Contact telephone numbers:

Australia	1800-123-350
Canada	1800-280-0398
Hong Kong	800-962-867
New Zealand	0800-737-500
Singapore	800-641-1013
United Kingdom	0800-960-283
United States	1800-208-2130

Shareholder inquiries about Telecom's operating and financial performance should be emailed to investor-info@telecom.co.nz or addressed to:

Manager, Investor Relations
Telecom New Zealand, PO Box 570
Wellington, New Zealand

Visit our website at www.telecom.co.nz